

## Message Text

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PAGE 01 BONN 13025 161829Z

63

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

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USIA-15 AID-20 CEA-02 COME-00 EB-11 EA-11 FRB-03

IO-14 NEA-14 OPIC-12 TRSE-00 CIEP-03 LAB-06 SIL-01

SWF-02 OMB-01 STR-08 DRC-01 /210 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 4468

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

UNCLAS BONN 13025

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652:N/A

TAGS: EFIN GW

SUBJECT: BUNDESBANK REDUCES MINIMUM RESERVE RATIOS BY 10 PERCENT

1. AT ITS FIRST MEETING AFTER THE FOUR WEEK SUMMER PAUSE THE CENTRAL BANK COUNCIL OF THE BUNDESBANK DECIDED TODAY TO REDUCE, EFFECTIVE SEPTEMBER 1, 1974, MINIMUM RESERVE RATIOS FOR DOMESTIC LIABILITIES BY 10 PERCENT. RESERVE RATIOS FOR THE BANKS' FOREIGN LIABILITIES REMAINED UNCHANGED AT 35 PERCENT FOR SIGHT DEPOSITS, 30 PERCENT FOR TIME DEPOSITS AND 25 PERCENT FOR SAVINGS DEPOSITS. THE MEASURE WOULD REDUCE MINIMUM RESERVE REQUIREMENTS OF BANKS BY ABOUT DM 4.75 BILLION.

2. NEW RESERVE RATIOS FOR DOMESTIC LIABILITIES, WHICH VARY DEPENDING UPON THE SIZE AND LOCATION OF THE INDIVIDUAL BANK, ARE AS FOLLOWS:

SIGHT DEPOSITIS: 13.2-17.2 PERCENT

TIME DEPOSITS: 7.9-11.9 PERCENT

SAVINGS DEPOSITIS: 6.6-7.9 PERCENT.

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PAGE 02 BONN 13025 161829Z

3. THE CENTRAL BANK COUNCIL STATED THAT THE MEASURE WAS MAINLY

TAKEN TO OFFSET THE LIQUIDITY EFFECTS OF THE RECENT OUTFLOWS OF FOREIGN EXCHANGE (WHICH AMOUNTED IN THE PERIOD JUNE 15-AUGUST 7 TO DM 3.2 BILLION), AND TO COUNTERACT THE ANTICIPATED SEASONAL TIGHTENING OF MONEY CONDITIONS IN SEPTEMBER.

4. ECONOMICS MINISTER FRIDERICH, FOR THE FIRST TIME SINCE HE TOOK OVER OFFICE, ATTENDED AT A MEETING OF THE COUNCIL.

5. GERMAN INDUSTRIAL AND BANKING ASSOCIATIONS GENERALLY WELCOMES THE CONCIL'S DECISION. THE FEDERAL ASSOCIATION OF GERMAN INDUSTRY FELT THAT THE MEASURE IS APPROPRIATE IN LIGHT OF THE CURRENT DOMESTIC SITUATION. THE ASSOCIATION OF GERMAN BANKS STATED THAT THE BUNDESBANK MEASURE WOULD CONTRIBUTE TO AN EASING OF FINANCIAL MARKETS BUT THERE DOESN'T APPEAR TO BE ANY CHANGE IN THE BUNDESBANK STABILITY POLICY.

6. FINANCE MINISTER APEL IN AN AFTERNOON STATEMENT ALSO CONSIDERED THE MEASURE ONE WHICH WOULD FURTHER EASE THE PRESSURE ON FINANCIAL MARKETS. HE FELT THE MOVE WAS CONSISTENT WITH THE GOVERNMENT'S BASIC ECONOMIC POLICY WHICH WILL BE CLOSELY WATCHED AND ANALYZED IN THE COMING MONTHS.

7. EMMINGER WHO CHAIRED THE MEETING OF THE BANK COUNCIL STATED THAT THIS MEASURE SHOULD NOT BE INTERPRETED AS A MOVE BY THE BUNDESBANK TO STIMULATE THE ECONOMY AND REITERATED THE OFFICIAL STATEMENT THAT THE MEASURE WAS SPECIFICALLY TAKEN TO OFFSET LIQUIDITY REDUCTIONS CAUSED BY FOREIGN EXCHANGE OUTFLOWS.  
HILLENBRAND

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BANK LAW, BANKS, CURRENCY CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 16 AUG 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
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**Disposition Comment:**  
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**Disposition History:** n/a  
**Disposition Reason:**  
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**Document Number:** 1974BONN13025  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Previous Classification:** n/a  
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**Page Count:** 2  
**Previous Channel Indicators:**  
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**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 JUN 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 JUN 2002 by reddocgw>; APPROVED <26 JUN 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** BUNDESBANK REDUCES MINIMUM RESERVE RATIOS BY 10 PERCENT  
**TAGS:** EFIN, GE, BUNDESBANK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005